

VZCZCXRO4235  
RR RUEHAST RUEHBI RUEHCI RUEHDBU RUEHLH RUEHPW  
DE RUEHNE #4336/01 2641223  
ZNR UUUUU ZZH  
R 211223Z SEP 07  
FM AMEMBASSY NEW DELHI  
TO RUEHC/SECSTATE WASHDC 8403  
INFO RUEHCG/AMCONSUL CHENNAI 1523  
RUEHCI/AMCONSUL KOLKATA 0872  
RUEHLH/AMCONSUL LAHORE 4128  
RUEHBI/AMCONSUL MUMBAI 0609  
RUEHPW/AMCONSUL PESHAWAR 4647  
RUEHIL/AMEMBASSY ISLAMABAD 3940  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RULSDMK/DEPT OF TRANSPORTATION WASHDC  
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC  
RUEHRC/DEPT OF AGRICULTURE WASHDC  
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 05 NEW DELHI 004336

SIPDIS

SENSITIVE  
SIPDIS

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD  
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR  
DEPT PASS TO USTR DHARTWICK/CLILIENFELD/AADLER  
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL  
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN  
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE

E.O. 12958: N/A  
TAGS: [EFIN](#) [EINV](#) [EPET](#) [ETRD](#) [SENV](#) [IN](#)  
SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR SEPTEMBER  
17-21, 2007

NEW DELHI 00004336 001.2 OF 005

1. (U) Below is a compilation of Economic highlights from Embassy  
New Delhi for the week of September 17-21, 2007.

GOI ANNOUNCES REFUND OF  
SPECIAL ADDITIONAL DUTY  
FOR IMPORTS THAT PAY STATE VAT  
-----

2. (U) The Indian government on September 14 notified a refund  
facility with respect to the 4 percent special additional duty, also  
known as an "additional countervailing duty" (CVD), on VAT-paid  
imported items. However, the responsibility to provide proof of  
state level VAT/sales tax payment lies with the importer. US  
exporters of consumer goods, computers, video cameras and mobile  
phones may benefit from this measure. The measure will put import  
traders on a par with domestic manufacturers who pay excise taxes  
and can set off the special CVD on imported products against the VAT  
on the final product. Earlier, traders ended up paying tax twice --  
Special CVD at 4 percent to the Federal govt., and again as VAT to  
the state government at the time of actual sales in the domestic  
market. While this is a move in the right direction, the refund  
procedure involves some degree of bureaucratic discretionary power  
that in practice is likely to result in delays, documentation  
requirements, and expense for the importer. Traders are also  
concerned that use of the term "sales tax" in the notice could  
result in alternative interpretations and disputes.

RELIANCE IN THE MIDDLE  
OF RETAIL DEBATE  
-----

3. (U) Reliance Retail remains the central topic of discussion on  
the issue of organized retail, with even the company's first-year  
operating losses of USD 2.7 million receiving prominent coverage,  
though the early losses were predictable and are unlikely to affect  
further roll-out. The press is also speculating as to Reliance's

plans for Uttar Pradesh (UP) and West Bengal (WB), two states where Reliance has met particular opposition. On Wednesday, the Business Standard reported that Reliance and other big retailers are forging ahead in both states. Then on Thursday, an article in The Asian Age indicated that Reliance was likely to pull out of UP. Interest in Reliance as the symbol of organized retail has peaked to a point that a news feature involving one small produce vendor, who says his daily turnover has shrunk from 2000 to 750 rupees since a Reliance Fresh opened nearby, made the front page of Monday's Business Standard.

¶4. (U) Complicating matters, organized retail foes new and old spoke out against Reliance and others this week. WB Chief Minister Buddhadeb Bhattacharya told industry executives that he is against foreign involvement in grocery retail, saying, "We do not need foreigners to sell our vegetables." He added that even large Indian retailers should not sell food grains. In UP, where the deadline is approaching for the study on the impact of organized retail on small vendors asked for by Chief Minister Mayawati when she shuttered Reliance outlets in the state in response to protests, opposition leader Mulayam Singh Yadav announced his support of Mayawati's closure edict, saying it was for the good of farmers and traders. Bhartiya Jan Shakti President Uma Bharti led a demonstration against organized retail in Indore, Madhya Pradesh, symbolically placing a lock on the already-closed door of a Reliance Fresh, and said she planned further protests for Bhopal. A traders' association in Uttarakhand protested against Reliance Retail's prospective entry into the state and promised further agitation if Chief Minister B.

¶C. Khanduri ignores their memorandum demanding that Reliance be barred from entering. In addition, the Rashtriya Vyapar Mandal, the traders' organization involved in the attacks on retail outlets in UP last month, announced plans for coordinated protests in the National Capital Region (NCR), Mumbai, and Ranchi, Jharkhand.

¶5. (U) As for foreign players, French retailer Carrefour is tentatively considering coming to India and has discussed

NEW DELHI 00004336 002.2 OF 005

partnerships with DLF, ADAG, and the Essar Group. Press coverage indicates that Carrefour is still more cautious than Wal-Mart regarding compromising on the terms of a partnership and the nature of related outlets, which caused them to abort an earlier effort to tap India's retail market.

¶6. (U) The broader retail sector, meanwhile, is facing a crunch on available real estate, raising concerns about prospects for current and future stores. The Economic Times reported that many fashion retailers are likely to close stores and abandon expansion plans as rental prices rise to as much as USD 30 per square foot per month. This is causing retailers to spend 25 to 30 percent of their total cost on rentals, versus a global average of 15 percent, with a shortage of space in many places yielding little hope for improvement in the near future. While 16.3 percent of retail space is currently available in the NCR, the figure is just 0.3 percent in Bangalore and 0.8 percent in Hyderabad.

IPR WORKING GROUP COVERS  
LITTLE GROUND  
-----

¶7. (SBU) The US-India working group on intellectual property rights met on Wednesday to discuss several outstanding IP-related issues. The Indian side, headed by Joint Secretary N. N. Prasad of the Ministry of Commerce and Industry, raised concerns about misappropriation of traditional knowledge and piracy of Indian music in the US but did not press for action or clarification of status. Prasad also expressed the GOI's belief that India should not be on the Special 301 priority watch list and asked for USG support on India's bid to become an International Searching Authority.

¶8. (SBU) The US side pushed, without success, for expected timelines on the GOI circular against book piracy, an updated copyright amendment, the enactment of an optical-disk law, a revised Mashelkar report on TRIPS-compliance issues related to the amended Indian Patent Act, and a response to Deputy USTR Bhatia's letter on US concerns regarding the data-protection measures suggested in the

Reddy report. In addition, Prasad was evasive on the transitional phase recommended in the Reddy report for data protection for pharmaceuticals, offering no clarity on how long the phase would last or whether there would be any data protection for pharmaceuticals during this phase. Prasad did say that IP recordation at customs has already begun and covers trademark, though neither he nor his team knew whether copyright would be included in the system.

¶9. (U) Both sides expressed an interest in meeting face-to-face at the first opportunity, but there are no current plans for a delegation in either direction.

#### BUILDING STRONG ECONOMIC PARTNERSHIPS -----

¶10. (U) At the fourth annual Indo-US Economic Summit hosted by the Indo-American Chamber of Commerce (IACC) from September 18-20, there were several useful sessions on key economic sectors like retail, aviation, manufacturing, and infrastructure. The Ambassador and Planning Commission Deputy Chairman Montek Ahluwalia gave inaugural addresses on the Indian economy and furthering the bilateral economic relationship. The text of the Ambassador's speech is available on the Embassy website.

#### BOOMING ECONOMY BUT EDUCATION NEEDS REFORM -----

¶11. (U) In his remarks, Ahluwalia highlighted the strong performance of the Indian economy, averaging 8.57 percent growth rate over the last four years. For this year, he projects a rate between 8.5 to 9 percent with a target of 10 percent by 2011-2012.

NEW DELHI 00004336 003.2 OF 005

Following on the summit's theme of building strong partnerships, Ahluwalia highlighted how India's openness and integration offer tremendous opportunities for business. Also, he stated, how a high savings rate over the last ten years has sustained an investment rate of 36 percent (as compared to 50 percent in China). He also conceded that while India has advantages of a skilled workforce and management, there are pressures that manifest overtime - particularly education. With India experiencing faster economic growth, Ahluwalia discussed how this adds to the scarcity of trained manpower. The Planning Commission is working on an education strategy to expand opportunities and improve quality. GOI hopes to double/triple the current number of 3 to 4 globally ranked universities in India.

¶12. (U) He also highlighted the strengths of India's soft power - a strong and healthy democracy. He challenged the opinion of some business types who say it takes too long to make decisions in India and rather attributed this to the strength of the democratic process. He also referred to a gradual social transformation in the villages where combined, they elect three million representatives of which one million are women.

#### HOW TO FIX INFRASTRUCTURE -----

¶13. (U) Ahluwalia focused on another crucial area in India's growth strategy - infrastructure. He said that, while other countries in Asia have moved ahead, India has fallen short of the needed investment in infrastructure. The 11th five year plan highlighted that total investment in infrastructure is 5 percent of GDP, which the Planning Commission wants to increase to 9 percent of GDP in the next five years. He compared the success that is possible in infrastructure with what India did in the telecommunications sector. Ten years ago telecom was a publicly dominated, backward sector that, following liberalization, became an open, competitive sector that grew rapidly and is now one of the most dynamic in the world. He noted that the monthly addition of mobile phones in India now exceeds China (even though China is still ahead on higher penetration).

ANSWER - INCREASE  
INFRASTRUCTURE SPENDING  
AND PROMOTE PPPs  
-----

¶14. (U) The infrastructure panel, chaired by IACC Infrastructure Committee head S. Chandrasekar, presented various business perspectives on roads, highways, ports, real estate, and project financing. All panelists highlighted the critical need and opportunities for US know-how, technology, management, and financing in infrastructure development. The chairman highlighted the IACC's 11 recommendations to the GOI in April 2005, of which four have been implemented: most notably, the creation of a separate financial institution exclusively for financing infrastructure, the India Infrastructure Finance Company, Ltd. (IIFCL). He stated that India spends USD 30 billion annually on infrastructure or 4.6 percent of GDP, but noted Ahluwalia's target for GOI spending of 9 percent of GDP. Chandrasekar added that the projection for spending on infrastructure development over the next five years has been raised to USD 430 billion.

¶15. (U) Chandrasekar touched on some key figures relating to roads, ports, and real estate. He said that with 3.3 million kilometers of roads, India has the second-largest network in the world (after the United States). However, at least USD 50 billion would be needed just for "four-laning" and "six-laning" existing roadways to meet increased demand. In addition, he explained that 95 percent of the volume and 70 percent of the value of total foreign trade is handled by India's ports, with shipping being the cheapest delivery option. Over the next five years, public-private partnerships (PPPs) are expected to invest USD 11 billion in Indian ports. As for real

NEW DELHI 00004336 004.2 OF 005

estate, Chandrasekar suggested that estimates of 95 to 110 million square feet of development needed by 2010 did not account for the booming retail industry. Rather, he projected that, powered by organized retail, the total retail market would rise from USD 280 billion per year to USD 1 trillion per year, requiring 200 million square feet of space for retail.

¶16. (U) Chandrasekar said that PPPs are the best way to move forward with infrastructure development, as the profit motive leads to better service and reduction in costs. He emphasized India's need for US technology and investment in this sector.

INDIAN ROADS NEED US  
INVESTMENT AND EXPERTISE  
-----

¶17. (U) Dr. A. Ramakrishna, former President (Operations) & Deputy MD of Larsen & Toubro, said that India should strive for a road network like that of the United States and for that India would need healthy US cooperation. He noted that 79 PPPs have been sanctioned by the National Highway Authority of India, of which 45 were on the BOT model and 20 on an annuity model. He added that the Prime Minister has set a target of USD 150 billion of foreign investment in infrastructure, and wants closer India-US ties on infrastructure, a transparent regulatory structure, and an emphasis on PPPs. He said that mega-projects should be executed solely by the GOI, with the possibility of handing over management to private companies thereafter.

PORT DEVELOPMENT IS MAJOR  
THRUST AREA FOR GOI  
-----

¶18. (U) Rakesh Srivastava, GOI Joint Secretary for Ports, said that port development is a "thrust area" and a personal interest of the Prime Minister. The central government manages India's 12 major ports, of which there are six on the east coast and six on the west. These 12 ports handle 75 percent of India's total port traffic. There are also 200 state-run ports, 61 of which handle cargo. The state-run ports currently handle 25 percent of India's overall port traffic, but the GOI has a goal of 50 percent by the end of the 11th five-year plan. India's ports handled 649 million tons of cargo in

2006, an increase of about 12 percent over the previous year. Srivastava said India's total capacity is expected to increase from 737 million tons of cargo in 2006-2007 to 1.5 billion tons by 2011-2012. He said that all ports are open to operation by PPPs, and bids will be accepted on numerous construction projects as well. He said they practice open, competitive bidding in two stages. He also mentioned that the current model license agreement would be replaced by a model concession agreement by the end of 2007 and that soon tariffs would be fixed by the Tariff Authority prior to bidding. Chandrasekar noted that while Dubai, Singapore, and Germany have been involved in port management in India, the US is not yet active.

ON REAL ESTATE  
BET ON TOWNSHIPS  
-----

¶19. (U) Mr. Kok Huat Goh, CEO of TSI Ventures, which has a 50-50 joint venture with ICICI Bank, India's largest private bank, said that despite bad press on the real-estate market, there are still tremendous opportunities in India, with good fundamentals for long-term improvement. He said that much of the bad news stems from overdevelopment in a few areas. In the next four or five years, Goh said, India will need approximately 20 million additional residential units. In his view, the best opportunities are in development of townships rather than development of individual buildings, as the former allows a company to redefine the context for its units, but he noted that these larger developments require significant public involvement and negotiation of goals and terms.

NEW DELHI 00004336 005.2 OF 005

ALL ONBOARD THE  
INDIAN RAILWAYS  
-----

¶20. (U) Arun Chandran, Parsons Brinckerhoff's Business Development manager, spoke very broadly, offering relatively few insights on the situation specific to rail development. He said that PPPs are the best model for rail development and mentioned the following factors that make rail development more complicated than road development: higher capital costs, higher operation and maintenance costs, the need for multimodal connectivity (as between subways and buses), and the continuing demands of safety, reliability and customer service.

INFRASTRUCTURE FINANCING  
-----

¶21. (U) S. R. Bansal, Vice President of IIFCL, said that his organization has INR 3 billion in paid-up equity and can raise funds from private and multinational sources, including the World Bank and the Asian Development Bank. They offer loans for up to 10 years to banks or directly for projects, with priority given to PPPs. The IIFCL is currently helping to fund 64 projects in 19 states, with most projects based in Tamil Nadu and the most funding going to Gujarat and Maharashtra. Bansal estimated that the IIFCL would give USD 3.7 billion on loans in FY 2008. The organization has MOUs with 19 banks and financial institutions, as well as a number of private companies. They are a co-sponsor of a facility for Pooled Municipal Debt Obligations. They have a Standard & Poor's rating of BBB-.

FINANCING MODELS  
-----

¶22. (U) Sanjiv Aggarwal, Citibank's Director and Head of Power, Energy, Transportation and Metals & Mining, did not talk in depth about anything related to financing models, instead giving a general picture of the investment climate for infrastructure. He cited a figure of USD 320 billion in coming infrastructure investment of which USD 64 to 100 billion would need to come from private sources. Investors, he said, are now fairly comfortable with the political risks involved in India and are happy to take equity positions. Aggarwal said that international investors prefer to turn over their equity quickly, which may require India to modify its regulatory structure. He added that infrastructure projects in India generally do return 18 to 25 percent on equity that PE funds are looking for.

¶23. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>

WHITE